CHINA'S RAPIDLY RISING OUTWARD FOREIGN DIRECT INVESTMENT IN THE EUROPEAN UNION

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Executive Summary

1. As the world's second largest economy, China has recently acquired new strength and incentives to expand its outward foreign direct investment (OFDI), making it the world's fifth largest investor in 2011. More importantly, China's investment in the European Union (EU) has risen even faster.

2. Chinese investors in the EU have diversified profiles, including sovereign wealth funds, state-owned enterprises and private businesses. In contrast to China's investment in developing regions, where energy and resource seeking is key, China's investment in the EU is mostly in the service and manufacturing sectors.

3. Geographically, Chinese investments largely in the form of mergers and acquisitions and greenfield investments are present in all 27 member states of the EU, with EU 15 attracting more than 85% of the total between 2000 and 2011. Nonetheless, Eastern Europe has become more attractive in recent years as a back door to the European Single Market.

4. The focus on the service sector may reflect the importance of trade facilitation for China. Chinese investors seem most keen on obtaining access to advanced technologies and management expertise in the EU.

5. Despite its fast growth, Chinese OFDI in the EU remains relatively small, as it started from a very low base, currently representing less than 1% of overall FDI flows to the EU. By and large, Chinese multinationals have yet to be influential in the European market and their performance presented a very mixed record.

6. Several challenges remain significant to Chinese investors aiming to expand their global reach. Domestically, Chinese companies are subjected to strict capital market control. Externally, they need to learn to reconcile with

different cultural backgrounds and corporate cultures. Very often, Chinese companies have weaker corporate governance.

7. There are expectations that China could play the “white knight” to the Euro zone crisis, while China has expressed its own concerns for China-EU relations. Without concessions from the European side, China would only made small, cautious steps in purchasing European sovereign debt.

8. China prefers to enhance its trade with and investment in the EU. While European countries largely welcome China’s investment, especially in heavily debt-ridden countries, some take a more cautious view, fearing China’s growing influence in the region.